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IN THE

Supreme Court of the United States

HALO ELECTRONICS, INC., PETITIONER,
V.
PULSE ELECTRONICS, INC., ET AL., RESPONDENTS.

STRYKER CORPORATION, ET AL., PETITIONERS,
V.
ZIMMER, INC., ET AL., RESPONDENTS.

On Writs of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF AMICUS CURIAE AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION IN SUPPORT OF NEITHER PARTY

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STATEMENT OF INTEREST

The American Intellectual Property Law Association (AIPLA) is a national bar association of approximately 14,000 members who are primarily lawyers engaged in private or corporate practice, in government service, and in the academic community.[1] AIPLA members represent a wide and diverse spectrum of individuals, companies, and institutions involved directly or indirectly in the practice of patent, trademark, copyright, trade secret, and unfair competition law, as well as other fields of law affecting intellectual property. Our members represent both owners and users of intellectual property. Our mission includes helping establish and maintain fair and effective laws and policies that stimulate and reward invention while

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[1] In accordance with Supreme Court Rule 37.6, amicus curiae states that this brief was not authored, in whole or in part, by counsel to a party, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than the amicus curiae and its counsel. Specifically, after reasonable investigation, AIPLA believes that (i) no member of its Board or Amicus Committee who voted to file this brief, or any attorney in the law firm or corporation of such a member, represents a party to this litigation in this matter; (ii) no representative of any party to this litigation participated in the authorship of this brief; and (iii) no one other than AIPLA, or its members who authored this brief and their law firms or employers, made a monetary contribution to the preparation or submission of this brief.

balancing the public's interest in healthy competition, reasonable costs, and basic fairness.[2]

SUMMARY OF ARGUMENT

Obtaining enhanced damages for patent infringement requires a showing that the infringement was willful. This willfulness requirement has been the law dating back to the Patent Act of 1836. The particular standard that the Federal Circuit has created to determine willfulness, however, is difficult to satisfy in practice and categorically exempts some willful infringers from punishment. The totality of the circumstances test proposed by Petitioners, on the other hand, should also be rejected. It takes the standard too far in the other direction, resulting in a test too vague to be applied with precision. AIPLA urges this Court to adopt a subjective bad faith standard for willful infringement, which strikes the right balance of the relevant interests and which is consistent with this Court's treatment of enhanced damages for patent infringement and exemplary damages in other contexts.

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[2] In accordance with Supreme Court Rule 37.3, all parties have consented to the filing of this amicus brief. All parties except Zimmer, Inc. and Zimmer Surgical, Inc. (collectively, "Zimmer") have filed blanket letters of consent with the Clerk. AIPLA sought consent to file this brief with counsel for Zimmer, and Zimmer's consent is contained in an email filed with this brief.

ARGUMENT

I. It Has Been Well-Settled for Almost 200 Years that Awarding Enhanced Damages against Patent Infringers Requires Proof of Willful Infringement.

Courts have long been required to find willful infringement before awarding enhanced damages as shown by the Patent Act itself, this Court's opinions interpreting that statute, and the decisions of the circuit courts of appeals. Willfulness is not, as Petitioners argue, merely sufficient for enhanced damages, but has always been a necessary predicate.

A. The Patent Act has made willful infringement a predicate for an award of enhanced damages since 1836.

Prior to 1836, an award of enhanced damages for infringement was mandatory. The Patent Act of 1793 stated that an adjudged infringer "shall forfeit and pay to the patentee, a sum, that shall be at least equal to three times the price, for which the patentee has usually sold or licensed to other persons, the use of the said invention." Patent Act of 1793, ch. 11, § 5, 1 Stat. 318, 322 (1793). This law allowed for treble damages (or more) regardless of the blameworthiness of the infringer's conduct.

The Patent Act of 1836, however, changed the law, permitting only the award of compensatory damages upon a finding of infringement and allowing for enhanced damages under limited circumstances:

> [I]t shall be in the power of the court to render judgment for any sum above the amount found by such verdict as the actual damages sustained by the plaintiff, not exceeding three times the amount thereof, according to the circumstances of the case, with costs.

Patent Act of 1836, ch. 357, § 14, 5 Stat. 117, 123 (1836).

This Court addressed the policies motivating the 1836 change in law and described the circumstances giving rise to enhanced damages in *Seymour v. McCormick*, 57 U.S. (16 How.) 480 (1854). The Court explained that imposing mandatory enhanced damages across the board was unjust because such a rule punished both willful and non-willful infringers equally. The law, instead, should only impose the "vindictive or exemplary" punishment of enhanced damages on "wanton or malicious" infringers. *Id.* at 489.

> Experience had shown the very great injustice of a horizontal rule equally affecting all cases, without regard to their peculiar merits. The defendant who acted in ***ignorance or good faith*** ... was made liable to the same penalty with the ***wanton and malicious*** pirate. This rule was manifestly unjust. For there is no good reason why taking a man's property in an invention should be trebly punished, while the measure of damages as to other property is single and actual damages. It is true, where

> the injury is wanton or malicious, a jury may inflict vindictive or exemplary damages, not to recompense the plaintiff, but to punish the defendant.
>
> In order to obviate this injustice, the Patent Act of 1836 confines the jury to the assessment of "actual damages." The power to inflict vindictive or punitive damages is committed to the discretion and judgment of the court within the limit of trebling the actual damages found by the jury.

Id. at 488-89 (emphasis added). While the Court uses the phrase "wanton" instead of "willful," the terms are synonymous. *See Safeco Ins. Co. of Am. v. Burr*, 551 U.S. 47, 57 (2007) ("willful" and "wanton" are treated "as meaning the same thing" (quoting W. Page Keeton et al., *Prosser and Keeton on Law of Torts* § 34 (5th ed. 1984)).

Differentiating the wanton and malicious pirate from the ignorant infringer for purposes of enhanced damages has been a fixture of the law ever since. Although Congress subsequently amended the Patent Act several times between 1836 and 1952, it left this damages provision intact. *See, e.g.*, Patent Act of 1870, ch. 230, §§ 55, 59, 16 Stat. 206, 207 (1870); Patent Act of 1922, ch. 58, § 8, 42 Stat. 392 (1922); Patent Act of 1946, ch. 726, § 4921, 60 Stat. 778 (1946); *see also Root v. Ry. Co.*, 105 U.S. 189, 200 (1882) (noting that 1870 amendment "renewed the [enhanced damages] provision previously in force").

In none of the subsequent iterations of the Patent Act did Congress undertake to alter whether or how enhanced damages may be awarded. The legislative history indicates that Congress was determined not to disturb this aspect of patent law. At a hearing of the House Committee on Patents concerning the 1946 amendment, Assistant Commissioner of Patents, Conder C. Henry, testified that exemplary damages are confined to cases of "willful infringement with the deliberate attempt of capturing the market which has been established under the patent." *Recovery in Patent Infringement Suits: Hearing on H.R. 5231 Before the H. Comm. on Patents*, 79th Cong. 9-10 (1946).

At the same hearing, John Stedman, representing the Department of Justice, reiterated this point, testifying that the law deters infringement by allowing for injunctions, awards of reasonable royalties, and "the threat of exemplary or punitive damages in the case of willful infringement." *Id.* at 18.

Representatives Lanham and Cravens also agreed that enhanced damages are limited to willful infringement in a colloquy when the bill came to the floor of the House.

> MR. LANHAM. I would say that in the case of an innocent infringer who had infringed without notice and without knowledge that it would be unreasonable to collect from him more than the reasonable royalty.
>
> MR. CRAVENS. I agree on that.

> MR. LANHAM. But if there has been willful infringement, then the damages as set out in the bill can be collected.
>
> MR. CRAVENS. And such damages could still be recovered under the existing law in the case of willful infringement.

92 Cong. Rec. H1857 (daily ed. Mar. 4, 1946).

In 1952, Congress reorganized and consolidated the Patent Act, enacting Section 284 in its current form. As with the 1946 amendment, the 1952 codification was not intended to alter in any way the long history of requiring willfulness for enhanced damages. *See Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 505 n.20 (1964) ("In the 1952 codification, §§ 67 and 70 of the 1946 Code were consolidated in the present § 284. The stated purpose was merely 'reorganization in language to clarify the statement of the statutes.'"); P.J. Federico, *Commentary on the New Patent Act*, 75 J. Pat. & Trademark Off. Soc'y 161, 216 (1993) ("Section 284 ... consolidates provisions in two sections of the old statute with some changes in language.").

B. This Court has consistently held that willfulness is required for enhanced damages.

This Court has been consistent in construing the Patent Act to require willful infringement as a predicate to enhanced damages ever since *Seymour v. McCormick* was decided in 1854.

In that same year, the Court issued an opinion that emphasized in a related context its holding in *Seymour* that only willful infringers should be punished with enhanced damages. In *Livingston v. Woodworth*, the Court reversed a damages award that was double the amount calculated to compensate the patentee. 56 U.S. (15 How.) 546, 559 (1854). One of the reasons for the Court's reversal, it explained, was that punitive damages would be unwarranted because the defendants acted in good faith. In particular, the evidence demonstrated defendants' belief from the beginning that the asserted patent was invalid and that their machine was protected by an earlier patent. *Id.* at 560. Once the priority and validity of the asserted patent were established, the defendants consented to an injunction. *Id.* Because the defendants "were ... in no correct sense, wanton infringers," the Court concluded that "there can be perceived in this case no ground whatever for the exercise of ... a power" to "inflict[] damages, by way of penalty." *Id.*

Since *Seymour*, this Court has reaffirmed the rule that willfulness is required for enhanced damages. In *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, discussing the available remedies for contributory infringement, the Court stated, "[the patentee] could in a proper case obtain an injunction; it could recover such damages as had actually been suffered from the contributory infringement ...; [and] it could in a case of willful or bad-faith infringement recover punitive or 'increased' damages under the statute's trebling provision." 377 U.S. at 508; *see also Root v. Ry. Co.*, 105 U.S. at 195-96 (discussing with approval

decision in *Seymour* that enhanced damages should not be mandatory because of "the very great injustice of a horizontal rule equally affecting all cases, without regard to their peculiar merits); *Dowagiac Mfg. Co. v. Minn. Moline Power Co.*, 235 U.S. 641, 644 (1915) (in remanding to allow for further evidence to be presented at trial to support compensatory damages, noting that the case was not one where the infringement was "wanton or wilful").

Similarly, in *Dowling v. United States*, this Court stated that "[a]mong the available remedies [to patent owners in civil cases] are treble damages for willful infringement." 473 U.S. 207, 227 n.19 (1985). As recently as 1999, Justice Stevens reiterated the willfulness requirement, stating, "[i]n the case of private infringement suits, treble damages are available only 'where the infringer acted in wanton disregard of the patentee's patent rights, that is, where the infringement is willful.'" *Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank*, 527 U.S. 627, 663 n.15 (1999) (Stevens, J., dissenting) (quoting *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826 (Fed. Cir. 1992)).

C. For over a century, circuit courts have applied this Court's willfulness requirement.

A willfulness standard that has the effect of eliminating the traditional requirement for enhanced damages would run counter both to this Court's precedents and Congress' intent. It would also undo over a century of practice by the Federal Circuit, and before its creation, the practice of the

other circuit courts of appeals. Circuit courts have consistently denied enhanced damages where there was insufficient evidence of willfulness. For instance, in the 1944 case *Enterprise Manufacturing Co. v. Shakespeare Co.*, the Sixth Circuit affirmed the ruling that the defendant's infringement was not willful and therefore did not warrant enhanced damages: "The patent in suit was sustained upon a narrow margin of validity, and it was not unreasonable for defendant to believe that the claims of the patent in this accounting were also invalid." 141 F.2d 916, 918 (6th Cir. 1944). In doing so, the circuit court emphasized the critical role willfulness plays in enhanced damages: "If honestly mistaken as to a reasonably debatable question of validity, an infringer should not be made to smart in punitive damages. Compensatory damages constitute adequate remuneration ...." *Id.* at 921.

Numerous circuit court decisions dating back over a century are in accord. *See, e.g.*, *Baumstimler v. Rankin*, 677 F.2d 1061, 1073 (5th Cir. 1982) (enhanced damages only warranted "when the infringement is willful and wanton"); *Wilden Pump & Eng'g Co. v. Pressed & Welded Prods. Co.*, 655 F.2d 984, 990 (9th Cir. 1981) (reversing enhanced damages because the evidence does "not support a finding that the appellants deliberately infringed"); *Union Carbide Corp. v. Graver Tank & Mfg. Co.*, 282 F.2d 653, 675 (7th Cir. 1960) ("[I]t is only on the basis of conscious and wilful infringement that exemplary or punitive damages are allowed ...."); *Power Specialty Co. v. Conn. Light & Power Co.*, 80 F.2d 874, 878 (2d Cir. 1936) ("There is no justification for punitive damages here as upon

wanton, deliberate, and willful infringement."); *Fox v. Knickerbocker Engraving Co.*, 165 F. 442, 444 (2d Cir. 1908) (affirming enhanced damages because the defendant "presented no evidence showing the invalidity of the patent and admitted infringement").

Since 1982, the Court of Appeals for the Federal Circuit has had exclusive jurisdiction over appeals relating to patents. In 2007, the court in *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007), established a test for determining whether enhanced damages may be awarded against an infringer. The court first noted that "we have held that an award of enhanced damages requires a showing of willful infringement" and "[t]his well-established standard accords with Supreme Court precedent," citing *Aro*, *Dowling*, and *Seymour*. *Id.* at 1368. It reviewed how the term "willfulness" had been used in the civil context, and it then created a two-part test to determine whether willful infringement had been established. The first prong of the test requires "clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." *Id.* at 1371. If the first prong were satisfied, then "the patentee must also demonstrate that this objectively-defined risk (determined by the record developed in the infringement proceeding) was either known or so obvious that it should have been known to the accused infringer." *Id.*

While AIPLA disagrees with the Federal Circuit's two-part test for determining willfulness, *Seagate* is nonetheless another example of the

circuit courts holding that willfulness is not merely sufficient for enhanced damages, it is a necessary predicate.

II. Proof of Willful Infringement Should Require Only a Showing of the Subjective Bad Faith of the Infringer.

AIPLA urges this Court to adopt a standard for willful infringement that focuses on the subjective intent of the infringer at the time of infringement, and to reject the *Seagate* test. This subjective standard would comport with the punitive purpose of enhanced damages. As this Court has repeatedly cautioned, standards for punitive damages should be both exacting and precise. A totality of the circumstances approach fails to meet this Court's requirements for punitive damages. The *Seagate* standard, on the other hand, goes too far in requiring, in addition to subjective bad faith, an objective analysis of the infringer's positions developed at trial. AIPLA's proposal strikes the right balance by providing an exacting standard that can be consistently and predictably applied by the lower courts while also ensuring that sufficiently blameworthy conduct is punished.

A. Because enhanced damages are punitive, the standard for willfulness should be exacting and predictable enough to ensure consistent and restrained application by the lower courts.

Enhanced damages under Section 284 are punitive, not compensatory. *See Fla. Prepaid*

Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank, 527 U.S. 627, 648 n.11 (1999) (describing as "punitive damages"); *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 508 (1964) (describing as "punitive or 'increased' damages"); *Root v. Ry. Co.*, 105 U.S. 189, 196 (1881) (describing as "punitive damages"); *Seymour v. McCormick*, 57 U.S. (16 How.) 480, 489 (1854) (describing as "vindictive or exemplary damages"); *Union Carbide Corp. v. Graver Tank & Mfg. Co.*, 282 F.2d 653, 675 (7th Cir. 1960) (describing as "exemplary or punitive damages"). As such, enhanced damages are a "quasi-criminal" punishment. *Pac. Mut. Life Ins. Co. v. Haslip*, 499 U.S. 1, 19 (1991). They come with not only a monetary punishment that exceeds the plaintiff's actual damages, but also a "stigma" that publicly brands the infringer. *Id.* at 54 (O'Connor, J., dissenting) ("The punitive character of punitive damages means that there is more than just money at stake.").

Because enhanced damages represent a form of punitive damages, they should be awarded only for truly egregious and outrageous conduct. As this Court recently recognized, "[t]he prevailing rule in American courts ... limits punitive damages to cases of what the Court in [*Day v. Woodworth*, 54 U.S. (13 How.) 363, 371 (1852)] spoke of as 'enormity,' where a defendant's conduct is 'outrageous.'" *Exxon Shipping Co. v. Baker*, 554 U.S. 471, 493 (2008). "[W]illful, wanton, and reckless indifference for the rights of others, or behavior even more deplorable" is required. *Id.*; *see also Atl. Sounding Co. v. Townsend*, 557 U.S. 404, 409, 411 (2009) ("Punitive damages have long been an available remedy at

common law for wanton, willful, or outrageous conduct.... [P]unitive damages were available in maritime actions for tortious acts of a particularly egregious nature.").

The standard for willful infringement should also be precise enough that potential willful infringers can consider their intended conduct and weigh the risk of their actions.

> [A] penalty should be reasonably predictable ... so that even Justice Holmes's "bad man" can look ahead with some ability to know what the stakes are in choosing one course of action or another. And when the bad man's counterparts turn up from time to time, the penalty scheme they face ought to threaten them with a fair probability of suffering in like degree when they wreak like damage.

Exxon, 554 U.S. at 502. Without this predictability, enhanced damages cannot serve their intended deterrent function, and the justice system risks inflicting inconsistent and capricious punishments.

Given the seriousness of the conduct required and the punishment levied, the willfulness standard also should be exacting and predictable enough to ensure consistent and restrained application by the lower courts, while deterring the willful disregard of legitimate patent rights. This Court has stepped in when standards for punitive damages were too ambiguous and discretionary. "The real problem," this Court recently explained, "is the stark unpredictability of punitive awards," which raise

"concern[s] about punitive damages that 'run wild.'" *Id.* at 499; *Pac. Mut.*, 499 U.S. at 18. Due Process concerns come into play here as well because accused willful infringers face "quasi-criminal" penalties but "have not been accorded the protections applicable in a criminal proceeding." *State Farm Mut. Auto. Ins. Co. v. Campbell*, 538 U.S. 408, 417 (2003). This serves only to "increase[] [the] concerns over the imprecise manner in which punitive damages systems are administered." *Id.*; *see also Pac. Mut.*, 499 U.S. at 54 (O'Connor, J., dissenting) ("This factor militates in favor of strong procedural safeguards.").

The Federal Circuit in *Seagate* sought to correct a lax and unpredictable standard (of its own doing) that persisted in the twenty years prior, starting with *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983). *Seagate*, 497 F.3d 1360, 1371 (Fed. Cir. 2007). Prior to *Seagate*, the Federal Circuit's standard for proving willfulness was much easier to meet, and the court imposed an affirmative duty on the part of the would-be infringer to investigate patents of which it was aware or be presumed to have willfully infringed. *Id.* at 1368-69.[3] The Federal Circuit's prior standard set too low a bar, was inconsistently applied, and sometimes resulted in erratic behavior such as avoidance of review of competitors' patents. *Id.* at 1371 ("This standard fails to comport with the

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[3] In addition to the Federal Circuit's overruling of *Underwater Devices* in *Seagate*, Congress enacted a statute to prohibit use of the fact that an opinion of counsel was not sought as evidence of willfulness infringement. 35 U.S.C. § 298.

general understanding of willfulness ... and it allows for punitive damages in a manner inconsistent with Supreme Court precedent."). As a result, enhanced damages were almost always sought and routinely awarded. *See* Kimberly A. Moore, *Empirical Statistics on Willful Patent Infringement*, 14 Fed. Cir. B.J. 227, 232, 236 (2004) (92.3% of cases alleged willfulness and 55.7% of cases where the issue was presented to the fact finder resulted in a finding of willfulness).

The state of the law prior to *Seagate* not only punished conduct that should not be considered blameworthy, but it also subverted an aim of the patent system: to encourage widespread knowledge of patents and allow the public to learn from improvements in the state of the art. The prior system encouraged willful blindness of the patents that had been issued so as to avoid being tagged with treble damages. Lawyers encouraged their clients not to read patents to avoid the potential for enhanced damages in future patent infringement actions. *See* Fed. Trade Comm'n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* 16 (October 2003), https://www.ftc.gov/sites/default/files/documents/reports/promote-innovation-proper-balance-competition-and-patent-law-and-policy/innovationrpt.pdf (noting that participants at the FTC-DOJ hearing held in November 2002 testified that they do not read their competitors' patents out of fear of treble damages).

The Federal Circuit was right to overturn its prior precedent on enhanced damages and adopt a

more stringent and precise standard. But the new test introduced problems of its own.

B. The *Seagate* standard goes too far, allowing blameworthy conduct to go unpunished.

The *Seagate* standard satisfies the two criteria for punitive damages in that it is exacting and it can be applied predictably. The problem with the test is that it can be too exacting, in some cases allowing truly egregious conduct to remain unpunished.

The difficulty lies with the first part of the test — the so-called objective prong. Before inquiring into the subjective intent of the infringer, the Federal Circuit first requires determining whether the infringer's defenses raised during the litigation are objectively unreasonable. *Seagate*, 497 F.3d at 1371. Where an infringer raises an objectively reasonable defense, the inquiry ends, and enhanced damages may not be awarded regardless of the infringer's subjective intent. *Id.*

This has the unfortunate potential to allow the taint of reprehensible conduct to be cleansed by post-hoc legal strategizing. If, for example, the infringer believed at the time of infringement that its conduct was infringing, but, long after the fact, its litigation counsel developed non-infringement or invalidity positions that were at least objectively reasonable, this would be enough to negate an award of enhanced damages. The defendant's knowing and willful infringement, possibly extending over years, would go unpunished.

The Federal Circuit's objective prong undermines the deterrent purpose of enhanced damages. *See Exxon*, 554 U.S. at 492 ("[P]unitives are aimed ... principally at retribution and deterring harmful conduct."). Defenses developed by litigation counsel after the infringement occurred played no role in the defendant's decision to engage in the infringement in the first place. If Section 284 is to deter would-be infringers, it should focus on what the defendant knew or chose to ignore at the time of the decision to infringe or to continue to infringe. Otherwise, Justice Holmes's "bad man" might knowingly infringe, hoping that skilled litigation counsel can devise a plausible defense when the defendant's day of reckoning finally arrives.

C. A subjective bad faith standard is more consistent with this Court's precedents and the purpose of enhanced damages.

When the Federal Circuit was considering the proper standard for willfulness in *Seagate*, AIPLA submitted an amicus brief urging the court to adopt a subjective bad faith standard. AIPLA maintains that the standard it recommended to the Federal Circuit in *Seagate* should be applied by this Court as the test for willfulness.

Under this proposed standard, the operative question is whether, at the time of infringement, the defendant had a good faith belief that either it was not infringing or the patent was invalid. Evidence of bad faith could include (1) the infringer continuing to infringe after receiving a detailed written notice of infringement from the patentee; (2) the infringer

intentionally copying the patented invention with knowledge that it was patented; and/or (3) the infringer engaging in conduct not colorably different from conduct previously found to have infringed the patent. The focus should be on the good faith of those who made the decision to make, use, or sell the infringing article or process. If the infringer is a company, especially a large company with many employees, the focus should be on the knowledge of the people making the decisions that lead to infringement. Knowledge of a patent by an employee who is not involved in the decisions that led to infringement should not be imputed to the entire company.

Evidence of bad faith could be countered with evidence that at the time of infringement the defendant had an informed good faith belief that the patent was invalid or not infringed. For instance, an opinion of counsel obtained at the time of infringement should be strong presumptive evidence of the defendant's informed good faith belief. An opinion would establish that the defendant, upon notice of the patent and before continuing to infringe it, conducted a thorough and reasoned analysis of the patent and concluded in good faith that the patent was invalid or its conduct did not infringe.[4]

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[4] Failure to obtain an opinion of counsel cannot be used to prove willful infringement. 35 U.S.C. § 298. There is no prohibition in section 298, however, on using an opinion of counsel as evidence of good faith.

As another example, evidence that the defendant, upon learning of the asserted patent, petitioned the USPTO for *inter partes* review, and that the review was thereafter instituted, should be presumptive evidence of a good faith belief that the patent claims allegedly infringed are not valid. Such cautious and responsible behavior would neither be egregious nor outrageous. A court reviewing this evidence should be able to grant summary judgment to dismiss a willfulness claim on the basis of presumptive evidence of good faith.

AIPLA does not propose that objective considerations be entirely discounted. The reasonableness of the infringer's invalidity or non-infringement positions could be relevant to whether the infringer acted in bad faith. Advancing particularly weak or frivolous positions would, for instance, support a finding that the infringer did not truly believe that its conduct was permitted. Conversely, strong invalidity or non-infringement defenses could indicate that the infringer acted in good faith. But the objective strength of the infringer's position should only be relevant if the infringer considered the defense at the time of infringement. Evidence uncovered and arguments developed only after the infringing conduct played no role in the infringer's decision to infringe, and therefore should play no role in the willfulness determination.

AIPLA's proposal is consistent with this Court's requirements for punitive damages. By requiring bad faith — i.e., intentional pirating or conscious disregard for a known risk of infringement — the

proposal limits enhanced damages to only egregious conduct. Subjective bad faith offers a clear, precise, and predictable standard against which Justice Holmes's "bad man" can reliably assess the risks associated with his contemplated infringement. Courts routinely determine the mental state of alleged wrongdoers in many different civil and criminal contexts. They are equally equipped to do so in this context.

AIPLA's proposal also is consistent with this Court's precedents regarding enhanced damages. Willfulness is routinely contrasted with good faith, making bad faith the appropriate determinant for willfulness. *See, e.g.*, *Seymour v. McCormick*, 57 U.S. (16 How.) 480, 488 (1854) (it is unjust to levy enhanced damages against "[t]he defendant who acted in ignorance or good faith"); *see also Egry Register Co. v. Standard Register Co.*, 23 F.2d 438, 443 (6th Cir. 1928) ("[W]e find no basis for any conclusion that the infringement was willful in any such sense as to justify the statutory increase of damages. Both as to validity and infringement there was doubt sufficient to support the good faith of a belief ....").

Bad faith and willfulness are generally defined similarly as involving a conscious, versus a negligent or careless, act; one in conscious disregard of a legal obligation. *See, e.g.*, *Black's Law Dictionary* 127, 1434 (5th ed. 1979) (Bad faith: "[I]t is different from the negative idea of negligence in that it contemplates a state of mind affirmatively operating with furtive design or ill will."; Willful: "An act or omission ... done voluntarily and intentionally and

with the specific intent to do something the law forbids, or with the specific intent to fail to do something the law requires to be done; that is to say, with bad purpose either to disobey or disregard the law.") In both cases, there must be a conscious purpose to perform an act rather than simple negligence or inadvertence.

And when both concepts, bad faith and willfulness, are placed in the context of the act of patent infringement, they arrive at the same endpoint. AIPLA does not propose that any act of bad faith expose an infringer to enhanced damages. Rather, the question is whether the defendant *infringed the patent* in bad faith. That is, did the defendant engage in the infringing conduct without an informed good faith belief that he had the right to do so, because the patent was invalid or not infringed? Bad faith associated with, for instance, litigation or patent prosecution misconduct would not be relevant. In this context, bad faith infringement means the same as willful infringement, i.e., "[a]n act [of patent infringement] ... done ... with the specific intent to do something the law forbids," namely, infringe a valid patent. *Black's Law Dictionary* 1434 (definition of "willful").

The focus on subjective intent is also consistent with this Court's and Congress' use of terms referring to the infringer's state of mind, including the term "willful" itself, which speaks of the infringer's subjective will. *See, e.g., Seymour*, 57 U.S. (16 How.) at 489 ("wanton and malicious pirate"); *Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank*, 527 U.S. 627, 663 n.15 (1999)

(Stevens, J., dissenting) ("wanton disregard of the patentee's patent rights"); *Recovery in Patent Infringement Suits: Hearing on H.R. 5231 before the H. Comm. on Patents*, 79th Cong. 9-10 (1946) ("deliberate attempt of capturing the market which has been established under the patent"); *see also Enter. Mfg. Co. v. Shakespeare Co.*, 141 F.2d 916, 920-21 (6th Cir. 1944) ("Compensatory damages constitute adequate remuneration ... unless ... the infringer ... is consciously wrongful."); *Overman Cushion Tire Co. v. Goodyear Tire & Rubber Co.*, 66 F.2d 361, 362 (2d Cir. 1933) ("[T]he infringement by the appellant was conscious and deliberate.").

D. A totality of the circumstances standard is inconsistent with the purpose of enhanced damages.

Set against this Court's requirements for justifying an award of punitive damages, a totality of the circumstances test should be rejected. Such a standard would give district courts unbounded discretion when determining willfulness. Such discretion would invariably produce divergent outcomes among the district courts, leading to "stark unpredictability" and "imprecision" that have no place in punitive damages awards. Also, such a standard threatens to turn back the clock and reverse the Federal Circuit's progress in confining enhanced damages to blameworthy conduct.

This Court's decision in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014), which concerned fee shifting under Section 285, does not give occasion to change the law. While an award

of attorney's fees is often a sanction to police misconduct during litigation, the purpose and measure of such awards are compensatory, not punitive. *See Kilopass Tech., Inc. v. Sidense Corp.*, 738 F.3d 1302, 1313 (Fed. Cir. 2013) ("[I]t is clear that the aim of § 285 is to compensate a defendant for attorneys' fees it should not have been forced to incur. The aim is not to punish a plaintiff for bringing those claims."). The reasoning of *Octane Fitness*, and its goal of providing the district courts greater discretion in managing patent litigation, therefore does not apply. By the same token, the need for predictable and consistent application of punitive damages awards under Section 284 does not apply to compensatory fee shifting under Section 285. Given their divergent purposes, the standards for fee shifting and enhanced damages should not be artificially equated.

There are other reasons why the Court's reasoning and approach in *Octane Fitness* should not apply here. This Court rejected the *Brooks Furniture* test, 393 F.3d 1378 (Fed. Cir. 2005), in part because the Federal Circuit in that case erroneously engrafted an "exceptional case" standard for Section 285 from the antitrust case *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*, 508 U.S. 49 (1993) ("*PRE*"), which addressed the application of the "sham litigation" exception to *Noerr-Pennington* immunity. 134 S. Ct. at 1757. The First Amendment issues present in antitrust cases require crafting a narrow exception to immunity, but there was no similar First Amendment concern with respect to fee shifting under Section 285. *Id.* This alone was sufficient

reason to question the premise underlying the Federal Circuit's jurisprudence. In the present case, as discussed above, the proposed test for Section 284 follows the long line of Supreme Court precedent, has not been lifted improperly from another area of jurisprudence, and does not rest on the Court's decision in *PRE*.

This Court also reasoned in *Octane Fitness* that the Federal Circuit's standard for fee shifting rendered Section 285 superfluous in view of other fee shifting mechanisms. *Id.* at 1758. Not so for Section 284, which is the only means of awarding enhanced damages for patent infringement.

Another distinction is that in *Octane Fitness*, this Court was addressing a specific issue of statutory construction: the meaning of the word "exceptional" in Section 285. The Court ascribed the word its ordinary meaning. *Id.* at 1756. The legislative history of Section 285 strongly supported the ordinary meaning, emphasizing Congress's intent to create a broad, discretionary standard to achieve a compensatory purpose. The courts applied Section 285 as such until *Brooks Furniture*. *See id.* at 1754 ("[T]he Federal Circuit, like the regional circuits before it, instructed district courts to consider the totality of the circumstances ...."); *see also* Patent Act of 1946, ch. 726, § 4921, 60 Stat. 778 (1946) (the predecessor of Section 285 stated, "The court may ***in its discretion*** award reasonable attorney's fees." (emphasis added)); S. Rep. No. 79-1503 (1946), *reprinted in* 1946 U.S.C.C.A.N. 1386, 1387 (predecessor of Section 285 enacted "so as to enable the court to prevent a gross injustice").

Affording the district courts broad discretion to compensate a prevailing party through fee shifting is not, however, the purpose of Section 284's provision authorizing courts to award enhanced damages. As discussed above, Congress intended that enhanced damages be awarded only as punishment for willful infringement. Nearly 200 years of judicial precedent support this narrowly restrained application. This Court should not woodenly superimpose the outcome of its entirely different analysis in *Octane Fitness* to interpret Section 284.

There is a place for the exercise of discretion in the standard for enhanced damages, but that place comes after willfulness has been established. Once the defendant's conduct is found to be sufficiently egregious to warrant punitive damages, the district court has discretion to award or deny enhanced damages under the Federal Circuit's precedent. *See i4i Ltd. P'ship v. Microsoft Corp.*, 598 F.3d 831, 859 (Fed. Cir. 2010). This accounts for and gives meaning to the discretionary term "may award" that appears in Section 284.

CONCLUSION

For the foregoing reasons, AIPLA respectfully requests that the Court reject the Federal Circuit's *Seagate* test and reaffirm is longstanding precedent that district courts can award enhanced damages under Section 284 if and when, at the time of infringement, the infringer acted in subjective bad faith.

Respectfully submitted,

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